

What is a *Recession?*

*The financial press
and the National
Bureau of
Economic Research
each define the
term recession
differently.*

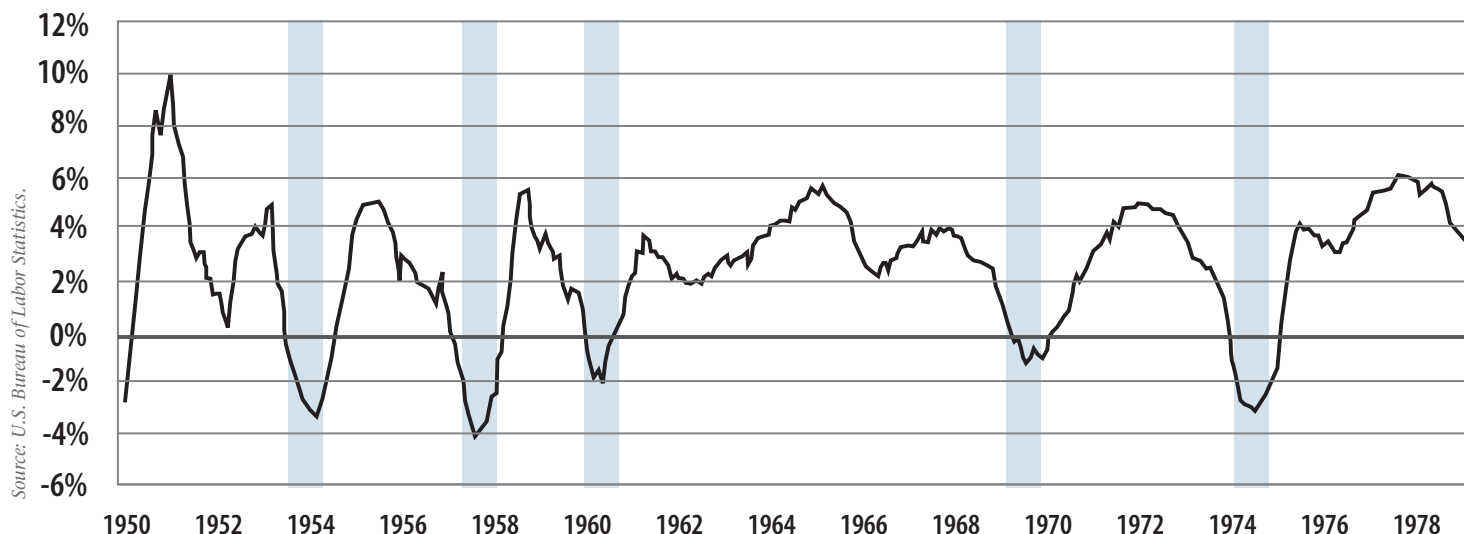
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HE SAID IT COULD BE ABOUT 45 MINUTES, DUE TO
THE GLOBAL ECONOMIC SLOWDOWN.

U.S. Year-Over Change in Nonfarm Jobs



Recessionary period as determined by the National Bureau of Economic Research.

Harry Truman once said, “It’s a recession when your neighbor loses his job; it’s a depression when you lose yours.” That folksy definition may get to the heart of our personal economic fears. On the other hand, it’s not a terribly precise measurement.

The financial press often uses the recessionary definition of two or more consecutive quarters of declining Gross Domestic Product (GDP). GDP is defined as the total market value of all final goods and services produced within the country in a given period of time. On the other hand, that measure fails to include several official U.S. recessions. (No wonder Truman also demanded “Give me a one-handed economist!”)

The NBER Knows

In reality, here in the United States, we’re in a recession when the economy says we are, but we don’t know it until the National Bureau of Economic Research (NBER) says we are. The NBER is considered the official arbiter of recessionary and expansionary periods. In particular, the Bureau’s Business Cycle Dating Committee has the final recessionary word.

Founded in 1920, the National Bureau of Economic Research is a private, nonprofit, nonpartisan research organization

dedicated to promoting a greater understanding of how the economy works. (Yes, I took that right off their web site.) The NBER includes leading scholars in the fields of economics and business. And, its past researchers have included numerous winners of the Nobel Prize for Economics and Chairmen of the President’s Council of Economic Advisers.

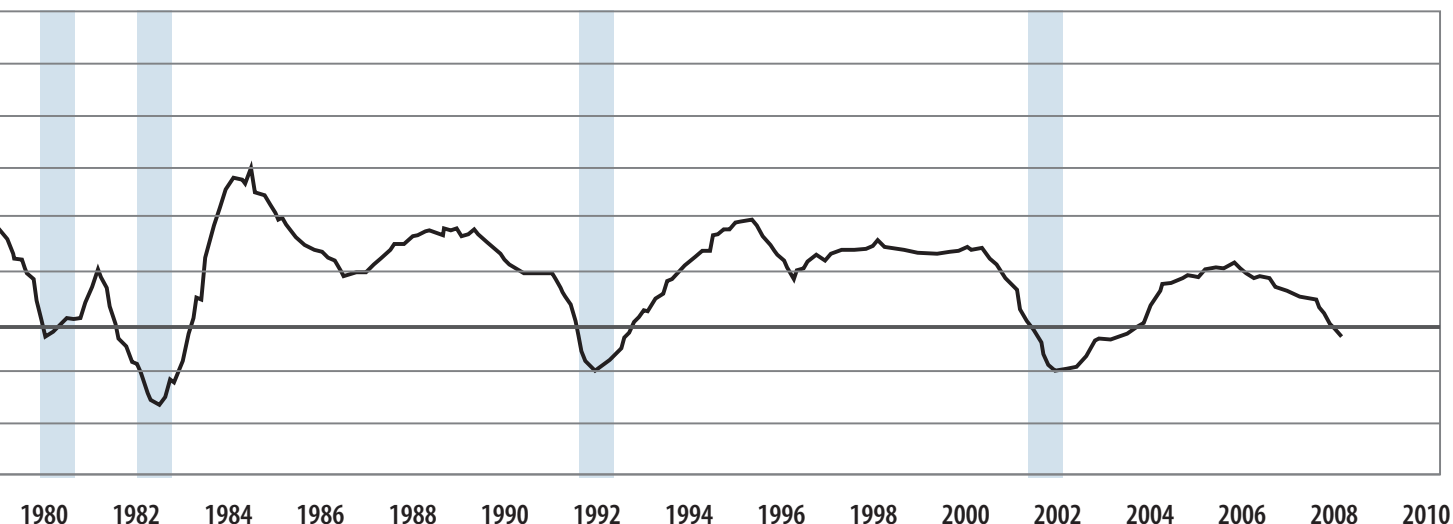
The “Official” Definition

Here’s the NBER’s official definition of a recession. “A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.” The NBER marks the beginning of a recession from just after the peak in activity and the ending when the economy reaches its trough.

GDP’s on Top

Now, you may have noticed the NBER does not have a fixed rule to determine when a recession begins and ends. They look at several indicators and make a judgment call. Remember, these are folks who study the business cycle for a living. Not surprisingly, Gross Domestic Product (only released quarterly) is a primary determinant.

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*Business Cycle Facts from
the National Bureau of
Economic Research*

- The last two U.S. recessions lasted eight months each.
- The two longest recessions in the Post World War II time period lasted 16 months each (November 1973- March 1975 and July 1981-November 1982).
- The shortest Post World War II recession lasted only six months during 1980.
- The Great Depression lasted 43 months.
- The longest U.S. expansionary period in the NBER's dating history (back to 1854) lasted 120 months from March 1991 to March 2001—a full ten years.
- Since 1945, recessions have averaged 10 months; expansions have averaged 57 months.
- In general, recessions have moderated in the post-war period.
- The previous recession ended in November 2001.

Secondary indicators include:

- Real (inflation-adjusted) Personal Income less Transfer Payments
- Employment
- Industrial Production
- Volume of Sales of Manufacturing and Wholesale/Retail Sectors (adjusted for price changes)
- Monthly Estimates of GDP

As all data geeks know, it takes a significant amount of time to collect, tabulate and publish data. Then the figures are revised. So, the NBER is immediately at a disadvantage when dating recessionary periods. In addition, the Business Cycle Dating Committee wants to be

absolutely certain a recession has begun. These two circumstances mean that it is generally six to 18 months after the start of a recession when the committee makes a determination. In other words, often by the time the committee decides a recession has begun, we're already out of it. That's why I have my own not-so-secret, quick and easy method to intuit recessionary periods.

The “Not-So-Secret” Formula

When tracking monthly year-over percent changes in nonfarm payroll jobs and past recessionary periods in the postwar period (see chart on previous page), it becomes abundantly clear that when the rate of job growth trends downward and eventually leads to job loss, we're in a recession. A “year-over” percent

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NBER's official definition



UNTIL THIS ECONOMY THING STRAIGHTENS OUT,
YOU'LL BE WORKING OUT OF YOUR CAR.

change merely equals the percent change between one month's employment and the same month a year earlier. For example, it represents the percent change between nonfarm employment in March 2008 and March 2007.

In the postwar period, this method has always worked. Plus, thanks to survey data, it's about as current as indicators get—particularly for the nation and the state. And finally, it's available for a wide variety of locales (unlike GDP). ⓘ

For more information: <http://www.nber.org>

Because of the time it takes to collect and tabulate data, the NBER often can't determine a recession exists until 6-18 months after it has started.